



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West provincial legislature and the council on the Moretele Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Moretele Local Municipality set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Moretele Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Commitments

3. The municipality did not correctly disclose all contractual commitments as required by GRAP 17 *Property, plant and equipment*. Discrepancies identified in the commitment register resulted in the commitments for R160 449 448 as disclosed in note 37 to the financial statements being understated by R10 440 236.

Finance lease obligation

4. The municipality did not correctly account for finance lease obligation in accordance with GRAP 13, *Leases*. The municipality included a liability of R14 250 600 that does not qualify as finance obligation in terms of GRAP 13. Furthermore the municipality did not include VAT in finance lease obligation which resulted in the understatement of the minimum lease payments due by R9 789 850 and present value of minimum lease payments due by R4 092 819. VAT account was subsequently mistated by this but I was unable to determine the quantitative impact as it was impractical to do so.

Fruitless and Wasteful expenditure

5. The municipality disclosed the expenditure as fruitless and wasteful expenditure which does not meet the definition of section 1 of the MFMA as the result fruitless and wasteful expenditure is overstated by **R5 370 482.** – PHUMANANI FRUITLESS

Irregular expenditure

6. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for irregular expenditure disclosed in note 47 of financial statements. I was unable to confirm the restated opening balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the irregular expenditure corresponding figure restated at R601 104 222 in the financial statements.

Unauthorised expenditure

7. The municipality incorrectly calculated unauthorised expenditure in the current year by netting off savings from different votes against each other, resulting in the current year unauthorised expenditure being understated by R60 248 203. In addition, I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of unauthorised expenditure disclosed on note 45. I was unable to confirm the restated opening balance by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the unauthorised expenditure stated at R297 429 128.

Statement of comparison of budget and actual amount

8. The municipality did not adhere to the budget presentation and disclosure requirements of GRAP 24 Presentation of budget information in the financial statements. The municipality did not disclose receivable from exchange transactions in the statement of comparison of budget and actual amounts. In addition, approved budget and final budget amounts for receivables from exchange transactions were disclosed as receivables from non-exchange transactions. Furthermore, approved budget amounts, final budget amounts and actual on comparable basis amounts for current assets and non current assets were swapped. Consequently, the difference between budget and actual amounts are overstated for receivables from exchange transactions and non-current assets by R29 850 875 and R 313 908 000 respectively and understated for receivables from non-exchange transactions and current assets by R60 484 000 and R 313 908 000 respectively.

Property, plant and equipment

9. I was unable to obtain sufficient appropriate audit evidence to confirm existence of certain tangible assets. I was unable to confirm the physical assets by alternative means. Consequently, I was unable to determine whether any adjustment relating to movable tangible assets stated at 961 926 152 in the financial statements was necessary.
10. I was unable to obtain sufficient appropriate audit evidence to support the amount of R9 920 108 included in the capital work in progress of R282 941 244. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustment relating to capital work in progress at R282 941 244. in the financial statements was necessary.

Retentions

11. The municipality incorrectly calculated retentions as VAT was not considered in the calculations, resulting in retentions being understated by R10 558 616.

Receivables

12. The municipality disclosed receivables from exchange transaction which did not agree to the underlying accounting. The receivables from exchange transaction of R 31 633 125 is overstated by R18 329 591.

Context for the opinion

13. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
14. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
15. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Uncertainty relating to the future outcome of exceptional litigation

17. With reference to note 38 to the financial statements, the municipality is the defendant in a number of lawsuits. The municipality is opposing the claim as per their legal counsel advice. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Material losses/ Impairment

18. As disclosed in note 29 to the financial statements, material losses to the amount of R52 041 197 were incurred as a result of impairment of trade debtors.

Other matters

19. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

20. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

21. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

23. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipality's or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

24. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
25. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

26. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
27. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
28. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
KPA 1: Basic Services and Infrastructure	74-87
KPA 2: Local Economic Development	102-107

29. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

30. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 1: Basic Services and Infrastructure

Various indicators

31. A comparison between current and previous year's performance were not disclosed, as required by section 46 (b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000)

Various strategic objectives

32. The reported strategic objectives are not consistent when compared with the planned strategic objectives. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Sub Programme	Strategic objective per the SDBIP	Strategic objective per the APR
Disaster management Services	Institutional capacity for disaster management	To provide quality basic services and infrastructure
	Disaster Risk Reduction	To provide quality basic services and infrastructure
	Disaster Risk Assessment	To provide quality basic services and infrastructure
	Response, recovery and Rehabilitation	To provide quality basic services and infrastructure
Sports, Arts and Culture	Creation of an enabling environment for growth in sport and recreation	To provide quality basic services and infrastructure
	Identify, develop and support talented sports teams and individuals	To provide quality basic services and infrastructure
	Promotion of sustainable communities and healthy lifestyle	To provide quality basic services and infrastructure
	Forging of working relationships with various stakeholders	To provide quality basic services and infrastructure
Education and Library service	Improve service delivery by expanding library services to communities	To provide quality basic services and infrastructure
	Expand and recapitalize community based library facilities to acceptable standards	To provide quality basic services and infrastructure
	Inculcate the culture of reading in order to enhance knowledge	To provide quality basic services and infrastructure

Various targets

33. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of targets listed below. This was due to the achievements reported being inconsistent with

planned targets as they were not aligning to the targets approved. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of targets.

Sub Programme	Planned Performance Targets in the SDBIP	Reported actual achievement per APR
Water and sanitation	218.4 Mega litres by June 2017	Target achieved
	1 425 Units constructed by June 2017	Not achieved
Roads and Stormwater	Gravel roads maintained in all 26 wards by June 2017	Not Achieved
Disaster Management	Disaster Plan reviewed and adopted by council	Not achieved
	Operational Disaster Management Advisory Forum	
	3 meetings	(Not documented)
	1 AGM	

Various indicators

34. The indicators listed below were changed without obtaining the necessary approvals as required by section 25(2) of the Municipal Systems Act, 2000

Sub programme	Planned Performance Indicators in the SDBIP	Reported Performance Indicators in the APR
Water and sanitation	1 670 households provided with yard connections by June 2017 in Mmakaunyane	Installation of yard connections to households in Mmakaunyane
	91.2 of Mega litres delivered by June 2017 in all wards	To reduce water shortage through tankering in all wards
	1 425 VIP toilets constructed in Mathibestad, Dikebu, ward 1&4 and Ramaphosa by June 2017.	To reduce backlog sanitation by Construction of VIP Toilets for households in Mathibestad, Dikebu, ward 1&4 and Ramaphosa
	Not included in the SDBIP	Taking water samples for good quality at 4 Sampling points
Quality basic services and infrastructure	No. of reported faulty high mast lights maintained by June 2017.	Maintenance of high mast lights in all wards

Health and environmental health	Not in the SDBIP	Statistics showing how such illnesses were mitigated against
		Programme illustrating plan to implement campaigns
		Programme outlining topics on healthy lifestyles
Social services	Not in the SDBIP	20 Service clubs Registered with SDS as NPOs
		Departmental interventions for needy families
		Number of ECD Centres registered with Dept. of SDS as NPOs & play group established for vulnerable children's
		Strengthen support to people with disabilities as NPOs
		Alleviate poverty & unemployment through the delivery of public & community services
		Well cleaned environment through service delivery & asset creation
Transport and public safety	Not in the SDBIP	Clean environment in all areas
		A number of new and re-registrations delivered
		Reports on registrations
		Ceremony that will attract stakeholders of the unit
		No of campaigns conducted
		Accountable and transparent service standards
Facility management and Thusong services	Not in the SDBIP	Record indicating reduction in the occurrences of crime
		Monthly meeting of stakeholders
		Number of community facilities maintained
		Number of facilities audited

Sports, arts and culture	Not in the SDBIP	Number of sports individuals or teams identified
		Number of national cultural events promoted

Various indicators

35. The targets for the indicators listed below were changed without obtaining the necessary approvals as required by section 25(2) of the Municipal Systems Act, 2000.

Sub programme	Indicator description per the APR	Planned Performance Targets in the SDBIP	Reported Performance Targets in the APR
Water and sanitation	To reduce backlog sanitation by Construction of VIP Toilets for households in Mathibestad, Dikebu, ward 1&4 and Ramaphosa	1 425 Units constructed by June 2017	1 425 Units constructed by June 2017 in Mathibestad, Dikebu, Ward 1&4 and Ramaphosa
	Taking water samples for good quality at 4 Sampling points	Not included in the SDBIP	12 good quality results by June 2017
Quality basic services and infrastructure	Maintenance of high mast lights in all wards	Maintenance of all reported high mast lights by June 2017	Maintenance of all reported high mast lights by June 2017
			Number of high mast lights targeted
Health and environmental health	Statistics showing how such illnesses were mitigated against	Not in the SDBIP	Relevant statistics received from existing health services
	Programme illustrating plan to implement campaigns		Campaign planned attracting 150 people
	Programme outlining topics on healthy lifestyles		2 workshops planned
Social services	20 Service clubs Registered with SDS as NPOs	Not in the SDBIP	Workshop held on writing business plan constitution & for funding
	Departmental interventions for needy families		4 meetings Annually

	Number of ECD centres registered with Dept. of SDS as NPOs & play group established for vulnerable children's		Registration of 5 centres as NPOs
	Strengthen support to people with disabilities as NPOs		Awareness campaigns held
	Alleviate poverty & unemployment through the delivery of public & community services		280 EPWP beneficiaries work opportunities created
	Well cleaned environment through service delivery & asset creation		Working equipment and protective clothing provided
	Clean environment in all areas		Number of areas cleaned
Transport and public safety	A number of new and re-registrations delivered	Not in the SDBIP	2000 renewals
	Reports on registrations		
	Ceremony that will attract stakeholders of the unit		Launching ceremony held
	No of campaigns conducted		No of campaigns conducted
	Accountable and transparent service standards		12 reports
	Record indicating reduction in the occurrences of crime		3 awareness campaigns held
Facility management and Thusong services	Monthly meeting of stakeholders	Not in the SDBIP	8 meetings
	Number of community facilities maintained		Not achieved
	Number of facilities audited		10 facilities audited Achieved

Various indicators

36. The measures taken to improve performance were not disclosed, as required by section 46 (c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) for the following indicators:

- Installation of yard connections to households in Mmakaunyane
- Programme outlining topics on healthy lifestyles
- Record indicating reduction in the occurrences of crime
- Number of community facilities maintained

Updated municipal WSDP by June 2017

37. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target: Updated municipal WSDP by June 2017. This was due to a lack of formal standard operating procedures procedures that predetermined how the achievement would be measured, monitored and reported, as required by the Framework for managing programme performance information. I was unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of updated municipal WSDP by June 2017.

Various indicators

38. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. The evidence provided did not agree to the reported achievements, which resulted in misstatements of the reported achievements, as the evidence provided did not agree to the reported achievements. I was also unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

Sub Programme	Performance Indicator	Reported achievement	Verified achievement
Water and sanitation	1 670 households provided with yard connections by June 2017 in Mmakaunyane	Only 1113 yard connections were made Target not achieved	1439 completed yard connections
	91.2 of Mega litres delivered by June 2017 in all wards	Target achieved	182.02 Mega litres delivered by June 2017
Electricity / Public lighting	No. of reported faulty high mast lights maintained by June 2017.	All faulty high mast lights reported (75 in total) Achieved	Not all faulty high mast lights reported were repaired (in Q4, 75 out of 77)

KPA 2: Local Economic Development

Various indicators

39. A comparison between current and previous year's performance were not disclosed, as required by section 46 (b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Various strategic objectives

40. The reported strategic objectives listed below are not consistent when compared with the planned strategic objectives. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Sub Programme	Strategic objective per the SDBIP	Strategic objective per the APR
Economic Development	To enhance Economic Development	To Promote economic development and job creation
	To empower local SMME	To Promote economic development and job creation
	Capacitated and developed SMME's	To Promote economic development and job creation
	Job-creation and empowerment of the community	To Promote economic development and job creation
	Functional LED Forum	To Promote economic development and job creation
	To promote and enhance the protection and maintenance of a clean and healthy municipal environment	To Promote economic development and job creation
	Functional environmental Forum	To Promote economic development and job creation
	To offer small scale farmers the unique opportunity to become viable and profitable business owners	To Promote economic development and job creation
	Celebration of Arbor Day event	To Promote economic development and job creation
	Functional Agricultural Forum	To Promote economic development and job creation
	Capacitated and developed farmers and Cooperatives	To Promote economic development and job creation
	To promote and support Tourism development	To Promote economic development and job creation
	Functional Tourism Forum	To Promote economic development and job creation
	To ensure proper land coordination and harmonious developments in close proximity to places of residence and employment.	To Promote economic development and job creation
	To promote land development initiatives, strengthening municipal	To Promote economic development and job creation

	relations with traditional councils and security of tenure	
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Various targets

41. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of targets listed below. This was due to the achievements reported being inconsistent with planned targets as they were not aligning to the targets approved. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of targets.

Sub Programme	Planned Performance Targets in the SDBIP	Reported Performance Targets in the APR
Economic Development	Consolidated Town Regeneration Strategy Implementation	Target achieved
	4 Cooperatives support with funding	Not achieved
	Enforcement of SPLUMA in line with National Requirements	Achieved
	Enforcement of building regulation in line with municipal tariffs	Achieved

Various indicators

42. The measures taken to improve performance were not disclosed, as required by section 46 (c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) for the following indicators:
- Approved LED By-Laws by June 2016
 - Land Fill established by site June 2018
 - To fund effective SMME's and cooperatives
 - Exposure from attending Exhibitions & Trade Shows

Various indicators

43. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the following indicators. This was due to a lack of formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported, as required by the Framework for managing programme performance information. I was unable to confirm that the reported achievement of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of these indicators.

Sub Programme	Planned Performance Indicators in the SDBIP	Planned Performance Targets in the SDBIP
Economic Development	Local Economic Development (LED) strategy approved by June 2016	Finalization of Strategy
	Approved LED By-Laws by June 2016	Development of LED By-Laws and Promulgation

	Moretele Regeneration Programme	Consolidated Town Regeneration Strategy Implementation
	Approved SMME policy by June 2016	Development of SMME policy
	Approved Environmental By-Laws by June 2016	Enforcement of the By-Laws
	Exposure of SMME'S to various programmes and trainings	200 SMMEs trained and exposed
	Number of job opportunities through various initiatives	6000 jobs created
	Establishment of Bojanala PDM Agri-Park Hub	Develop Agri-Park Master Business Plan
	To fund effective SMME's and cooperatives	4 Cooperatives supposed with funding
	Exposure of SMME'S to various programmes and trainings	218 farmers and cooperatives trained and exposed to various programmes
	Exposure from attending Exhibitions & Trade Shows	Participate in 4 a Exhibitions and Trade Shows
	Finalized Spatial Development Framework (SDF), Jan 2016	Enforcement of the SDF in land development applications
	Implementation of SPLUMA, July 2016	Enforcement of SPLUMA in line with National Requirements
	Final Land Use Management Scheme (LUMS) in place	Promulgation and implementation
	Functional Town planning	Approved Planning policies
	Approval of Building Plans	Enforcement of building regulation in line with municipal tariffs

Various indicators

44. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. The evidence provided did not agree to the reported achievements, which resulted in misstatements of the reported achievements, as the evidence provided did not agree to the reported achievements. I was also unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

Sub Programme	Performance Indicator	Reported achievement	Verified achievement
Economic Development	Moretele Regeneration Programme	Target achieved	Strategy approved but no proof of implementation was available. Target not achieved
	Exposure of SMME'S to various programmes and trainings	Over 200 SMMEs trained Achieved	115 entities were noted from the registers.

	Number of job opportunities through various initiatives	6343 job opportunities created Achieved	1379 job opportunities noted from CWP Report
	Established and coordinated LED Forum	4 meetings held Achieved	No attendance registers or minutes of meetings, but a schedule of the outreach programme in which businesses were to be assisted in registering on CSD.
	Exposure from attending Exhibitions & Trade Shows	Only 3 Exhibitions and Trade Shows attended	2 Exhibitions and trade shows attended: Tourism Indaba and 2016 Getaway show
	Functional Town planning	Planning policies approved Achieved	Functional Town Planning Tools approved

Other matters

45. I draw attention to the matters below. My opinions are not modified in respect of these matters.

Achievement of planned targets

46. Refer to the annual performance report on page 74 to 114 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets. This information should be considered in the context of the qualified opinions expressed on the usefulness and reliability of the reported performance information in paragraph xx of this report.

Report on audit of compliance with legislation

Introduction and scope

47. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

48. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements, performance and annual report

49. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
50. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.
51. The 2015/16 annual report was not published for the local community to submit representations in connection with the annual report, as required by section 127(5) (a) of the MFMA.
52. The annual performance report for the year under review did not include the measures taken to improve performance, as required by section 46 (1) (c) of the MSA.

Strategic planning and performance management

53. The local community was not afforded the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the MSA and municipal planning and performance management regulation 15(3).

Procurement and contract management

54. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
55. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
56. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
57. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
58. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
59. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2) (b) of the MFMA.
60. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2) (c) of the MFMA.
61. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
62. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for councillors issued in terms of the Municipal Systems Act

Expenditure Management

- 63. Money owed by the Moretele Local municipality was not always paid within 30 days as required by section 65(2) (e) of the MFMA.
- 64. Effective steps were not taken to prevent irregular expenditure amounting to R 739 974 897 as disclosed in note 47 to the annual financial statements, as required by section 62(1) (d) of the MFMA.
- 65. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R 1 736 522, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA. More than 90% of the fruitless and wasteful expenditure disclosed was caused by the interest levied on the late payment of invoices.

Consequence management

- 66. All irregular, Fruitless and wasteful and unauthorised expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the Municipal Finance Management Act.
- 67. All losses resulting from fruitless and wasteful expenditure were written-off as irrecoverable without being certified by council as irrecoverable, in contravention of [section 32(2)(b) of the Municipal Finance Management Act.

Conditional grant management

- 68. The Municipal Infrastructure Grant was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the Division of Revenue Act.
- 69. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant, as required by section 12(5) of the Division of Revenue Act.

Asset management

- 70. An effective system of internal control for assets was not in place, as required by section 63(2) (c) of the MFMA.

Human resource management

- 71. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA

Environmental management

- 72. The municipality did not exercise its legislative and executive authority of managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment as required by section 11(3)(l) and (m) of the MSA.
- 73. The municipality operated its wastewater treatment facility without a license in contravention of section 24(2) (a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) and section 22(1) (b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
- 74. The municipality's operational activities at its wastewater treatment facility contravened or failed to the norms and standards as prescribed by sections 151(1) (c) and (i) of the NWA.
- 75. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c) and (d) and 26(1)(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA).

Other information

76. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
77. My opinion and findings do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
78. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
79. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

80. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, and the findings on compliance with legislation included in this report.

Leadership

81. Lack of good governance practices adopted by management.
82. Management does not have policy and procedures for performance management and personnel individual performance assessments.
83. The municipality does not have adequate personnel with relevant skills and knowledge in key areas of the municipality (i.e finance , performance management and supply chain management)
84. Management appointed consultants to address the skill gap but the skills transfer did not taking place and management neglected its responsibilities in terms of the functions to outsourced consultants.

Financial and performance management

85. Management did not implement proper record keeping mechanism to ensure that reported performance information and financial statements are supported by complete and accurate information; as a result, material differences were identified between the amounts reported on the financial statements and the underlying records.
86. Lead schedules supporting amounts reported on the financial statements were not prepared and reviewed to ensure that the quality of the annual financial statements was improved.
87. Management did not implement adequate internal control which resulted in significant findings on financial statements, performance information and instances of non-compliance with laws and regulations.

Governance



88. The internal audit unit did not review the financial and performance reports to confirm the reliability of the reports before their submission to the audit committee and external auditors.

Other reports

89. I draw attention to the following engagements conducted by various parties that could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

90. During the 2014/15 financial year, the following investigations in progress were reported. We could not obtain sufficient appropriate evidence about the status of the investigations as at year-end:

91. Irregularities in the Supply Chain Management sections being investigated by the HAWKS. The investigations are still continuing and not concluded at year-end. The investigations were not instituted by management

92. Irregularities in the Supply Chain Management section being investigated by the Special Investigating Unit. The investigations are still continuing and not concluded at year-end. The investigations were not instituted by management.

Pretoria

01 December 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Moretele Local Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.